

Budgeting in Managerial Accounting:

A Look at Global Practice

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In order for any organization, regardless of size, to function efficiently, it needs managers. Managers are responsible for “formulating strategy, making plans, organizing resources, directing personnel, and controlling operations” (Noreen, Brewer, & Garrison, 2008, p. 5). Management accounting (MA) makes contributions in every one of these areas, but primarily in the areas related to strategy, planning, organizing resources, and controlling operations. With regard to strategy and planning, one of the main functions of managerial accounting is to assist in the development of a budget. This paper proposes to look at the concept of budgeting in the managerial accounting in a selection of countries.

Simply expressed, a budget is “a financial plan of the resources needed to carry out tasks and meet financial goals” (Maher, Stickney, & Weil, 2008, p. 303). There are many kinds of budgets, from basic household budgets to master budgets, which are used by organizations and businesses to keep track of all the individual types of budgets that may be employed to track daily operations. Budgets are usually developed by the organization’s controller, the head of the accounting department (Noreen, Brewer, & Garrison, 2008). A budget can also be described as a “qualitative plan for acquiring and using resources over a specified time period” (Noreen, Brewer, & Garrison, 2008, p. 298). While the usefulness of a budget is clear for the planning stage, the controlling operations part cannot be overlooked. In order for an organization to run smoothly, management must make sure that all parts of the organization are working together efficiently. Noreen, Brewer, and Garrison (2008) observe that “a good budgeting system must provide for both planning and control. Good planning without effective control is a waste of time and effort” (p. 298).

In most organizations, there are several different budgets that must be employed, representing different aspects of the organization. Some common, discrete budget types include sales, production, marketing cost, and administrative cost (Maher, Stickney, & Weil, 2008). These individual budgets are usually tracked and related to one another using a master budget. A master budget is “a summary of a company’s plans including specific targets for sales, production, and financial activities” and “formally lays out the financial aspects of management’s plans for the future and assists in monitoring actual expenditures relative to those plans” (Noreen, Brewer, & Garrison, 2008, p. 298).

As a result, a budget is a universally useful and commonly used tool. It can facilitate communication, planning, resource allocation, preventing problems, coordination, integration, and evaluation, namely via benchmarks (Noreen, Brewer, & Garrison, 2008). Managerial accounting provides the hard numbers needed to “measure performance and to allocate resources to their best uses” (Maher, Stickney, & Weil, 2008, p. 302). Essentially, managerial accounting provides the crucial data needed to create budgets; it tracks the flow of resources, in and out; and it uses the feedback data to make adjustments to future plans and budgets.

The role of MA in budgeting and budgeting itself seem straightforward. These are commonly employed in American organizations and can be seen at work (and in controversy) with regards to federal and state governments (Murray & Efendioglu, 2011). But is managerial accounting and its applications in budgeting employed in other countries? Is it similar to applications in the United States, or does it differ? Countries to be examined include China, Romania, Egypt, Jordan, and Nigeria.

Managerial accounting as a profession is still relatively new in China (Yuen, 2013), the United States’ biggest competitor and corporate collaborator. Yuen (2013) notes that accounting

law was not in place in China until 1985 and was amended in the 1990s, but the law needs another look. China has seen a lot of economic growth in the last decade; however, it has also seen a lot of corporate misconduct. Yuen (2013) sees MA as a way of upholding integrity and professional ethics. Currently, Chinese organizations, both private and state-owned enterprises, do employ some traditional MA concepts, including capital budgeting, which is “how managers plan significant investments in projects that have long-term implications such as the purchase of new equipment or the introduction of new products” (Noreen, Brewer, & Garrison, 2008), as well as just-in-time inventory, cost-volume-profit analysis, and total quality management (Yuen, 2013). However, this limited usage is not enough. There are problems with internal control (hence the misconduct), and the practices currently in use have not been updated. So, it does not appear that the variety of budget types and practices used in the United States are widely employed in China.

If China wishes to continue to compete, particularly with regard to foreign investments, Yuen indicates (2013), it will have to update its practices, particularly with regard to serving businesses, rather than just to comply with the government’s regulations. Yuen (2013) also indicates that these practices will have to become more Western in order to “manage...operations effectively” (p. 59). This need to become more Western and current means that the need for managerial accounting will increase, and theoretically more MA practices (MAPs) will be employed, included budgeting and budgets.

In contrast to China, Romania seems “to recognize the importance, necessity and utility of managerial accounting,” though they tend to develop their own systems and practices to meet their unique needs, rather than abiding by regulation (Réka and Ștefan, 2011, p. 487). They prefer traditional practices, such as budgeting, to more advanced or current practices. Réka and

Ștefan (2011) found that Romanian MA evolved differently because of the unique political, social, and economic contexts of the country; however, it has had to adjust to keep up with trends and technologies. In their survey of MAPs, they discovered that budgeting, particularly for decision-making, is “a top priority of managerial accounting within Romanian companies” (Réka and Ștefan, 2011, p. 487).

Unfortunately, according to Réka and Ștefan (2011), “Romanian companies are too preoccupied with cost calculation and management, with budgeting or with the improvement of internal production and business processes” that they sometimes neglect the needs of their customers (p. 489). So, Romania likes traditional MAPs, including budgeting, but perhaps likes it a bit too much.

Egypt, unlike China and Romania, is currently a country in transition. Political developments and their consequent impacts on government and industry have been detailed carefully by the media since the 2011 revolution. Unfortunately, “there is a lack of knowledge regarding the current state of management accounting, and management accounting practices in Egypt” (Al & McLellan, 2011, p. 106). However, in the past Egyptian organizations have preferred traditional management accounting methods and are – as a result of cultural factors – resistant to the consideration and use of newer MAPs (Al & McLellan, 2011, p. 106). These cultural factors also point to the fact that Egyptians have a very strong sense of uncertainty avoidance; consequently, they put a lot of stock in activities like planning and budgeting to reduce uncertainty (Al & McLellan, 2011). Consequently, Egyptian companies “make extensive use of budgeting of *all* budgeting practices [emphasis added]” (Al & McLellan, 2011, p. 109).

In their study of Egyptian MAPs, Al & McLelland (2011) looked at adoption rates of traditional practices. They found that many budgeting-related activities had adoption rates of 77% – 100%, considered high. Budgeting-related activities in the moderate range included budgets for planning financial positions (65%) and budgets for compensating managers (58%), though there were others as well. There were no budget-related activities in the low ratings. It is interesting that the two lower-scoring budget practices are important for the smooth running of accounting departments! At any rate, these numbers suggest that Egyptian MAPs definitely include positive emphasis on budgets and budgeting. Consequently, these findings confirmed one of Al and McLelland's (2011) hypotheses for their study: "Egyptian firms will make extensive use of budgets both budgeting for controlling costs and budgeting day-to-day planning of operations. Capital budgeting will also have a high adoptive rate" (p. 115). Their research also demonstrates that Egyptian companies see the high benefits from practices like budgeting. This suggests, in the context of this paper, that Egyptian MAPs – regardless of their cultural evolution – are similar to traditional American practices.

How does Egypt's neighbor Jordan compare? Sleihat, Al-Nimer, and Almahamid (2012) decided to measure the sophistication of Jordanian MAPs; they discovered, using the 4-step International Federation of Accountants (IFAC) model, that yes, traditional MAPs are used, but they aren't very sophisticated (much like China, Romania, and Egypt). Their survey revealed that a majority of the participants in the survey – 78.1% of respondents – use budgeting for planning (Sleihat, Al-Nimer, & Almahamid, 2012), making budgeting the most frequently used MAP of the ones studied. The budgeting tasks that ranked the highest were those for planning, controlling costs, and strategic plans (Sleihat, Al-Nimer, & Almahamid, 2012). One can conclude from this

that budgeting MAPs, mainly traditional ones, are definitely used in Jordan. Furthermore, it would appear that Jordanian companies use budgeting MAPs much like American companies do.

The final country to examine is Nigeria. Onaolapo and Oladejo (2013) made a survey of MAPs as planning and decision-making tools in selected companies in Nigeria. This research was conducted in response to concerns that local goods, and their producers by extension, could not compete with imported goods. Onaolapo and Oladejo (2013) concluded that this was likely a result of local companies lacking the skills to truly implement MAPs effectively, as well as some companies not even being aware of MAPs at all. Their research concluded that those companies that did employ MAPs did not so frequently or were not well-informed about MAPs (Onaolapo & Oladejo, 2013). The MAPs they did identify as the most influential did not include budgeting, which was surprising, given the trend of some kind of focus on budgets and budgeting in the other countries examined thus far in this paper.

What conclusions can be drawn from these examinations? One conclusion is that MAPs are, for the most part, universally used in organizations around the world, which reinforces their usefulness. Furthermore, budgeting as a MAP is also, for the most part, universally used in organizations around the world, which reinforces its usefulness. However, the extent of usage and emphasis on use of budgets and budgeting seem to vary from country to country; this seems to be the result of cultural factors, as in the case of Egypt and Romania. Many countries that are currently employing MAPs are relying heavily on traditional techniques and seem resistant or indifferent to newer or more advanced techniques. Some of these countries share similarities with the practices of American organizations; furthermore, the literature suggests that in order to compete (or even survive), these countries may need to adopt these more Western (American?) practices. The final conclusion is that budgets and budgeting will likely continue to be widely

used, as they have a wide variety of applications and appear to be a sort of universal business language.



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